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U.S.A.I.D. ZIMBABWE

FY 1984 CDSS STRATEGY IMPLEMENTATION REPORT

March, 1983

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1. INTRODUCTION

U.S.A.I.D./ZIMBABWE's Country Development Strategy Statement was reviewed and accepted in Washington in June 1982. The strategy set forth in that document represents the culmination of more than a year of in depth analyses by AID, the World Bank and IMF, of the major sectors of the Zimbabwean economy. It is a strategy the Government of Zimbabwe has also accepted and is supporting with its own resource allocation.

Only eight months have elapsed since the CDSS was submitted. Though there have been siginificant economic developments over the past months, there have been no startling turns that suggest a change in strategy or a shift in program composition. For this reason, the Mission has used this opportunity, thanks to the flexibility AID/W built into this year's instructions, to report on the implementation of the approved FY 1984 CDSS. This paper is not meant to be exhaustive. It should be read with close reference to the CDSS when more details of the analyses and Mission strategy are desired. The CDSS is the basis of and point of departure for this paper.

We will focus most on the questions of policy change and sector assistance. This has been done for two reasons. First, these two elements form the very important center piece of our strategy and assistance program. We believe that policy environment, though needing improvement in several areas, is sound for the situation. As for the choice of program mode, there exists within Government sufficient capacity to plan and manage the use of non-project assistance.

Secondly, the Administrator has asked that the Mission report periodically on progress in policy dialogue. He has also expressed interest in the Mission's choice of Education and Agriculture Sector Grants for Zimbabwe and asked the Mission to elaborate on how it planned to monitor the programs and measure their success or lack thereof. Sections IV and VI address these important concerns.

This summer Dr. Elliot Berg will assist us in examining in even greater detail, the questions of policy, private sector and non-project assistance with the view of assisting the Mission and Government of Zimbabwe to further sharpen its strategy and program. His report will be treated as a CDSS evaluation.

Finally Section VI has been presented such as to sketch the Mission's activities in the Agency's four priority areas. We believe the program responds directly to the four concerns and are well intergrated into the Mission's strategy.

II. STRATEGY SUMMARY

The two longer term goals of the Mission's strategy are (see FY 1984 CDSS Zimbabwe p.63):

- to assist the Government in marshalling foreign and domestic resources, particularly foreign exchange and private investment, into the most competitive growth sectors, thus providing a firm basis for sustainable poverty alleviation and development growth, and
- to assist the Government in raising living standards, expanding agricultural output, rural incomes, and increasing employment opportunities while narrowing the stark dualism in the economy.

The strategy means with which we meet the goals have been placed within the following eight areas.

1. Expanding the productive capacity of the modern sector (manufacturing, industry mining and commercial agriculture) by provision of foreign exchange channelled largely through the private sector.
2. Enlarging agriculture productivity particularly in small holder areas.
3. Improving human capital through skills development; improving education qualitatively, enlarging it quantitatively and making it more cost effective. To also strengthen local institutions designed to expand human productivity.
4. Expanding employment both in modern and rural sectors, while strengthening linkages between training, employment and business. Special emphasis will be placed on assisting the emerging Zimbabwe private sector and small entrepreneurs.
5. Moderating population growth rates, thereby relieving, overtime, pressure on land, energy resources, job creation and social services.
6. Providing capital resources to open up access to home ownership for low income families, and to involve the private sector as a major new source of lending for low income housing.
7. Engaging the Government of Zimbabwe in policy dialogue which will maintain an environment conducive to growth, private investment and exportled development.
8. Working more closely with other donors in policy dialogue and in building more coherent approaches to Zimbabwe's major development problems.

Since the above strategy was formulated and the CDSS submitted in June 1982, the Mission has watched closely the Zimbabwean economy and GOZ economic policy decisions for signals or shifts that might impact upon and or have implications for the Mission's strategy and assistance programs. Our assessment of the key economic trends and GOZ economic policy pronouncements over the past eight months leads us to conclude that, while it will be necessary to concentrate and strengthen our efforts in certain areas where progress is essential, the Mission's basic strategy and program mix remains valid and appropriate for the conditions extant in Zimbabwe.

III. SUMMARY OF RECENT MAJOR ECONOMIC TRENDS AND STRATEGY IMPLICATIONS

A. Overview

The major feature of the Zimbabwean economy since the submission of the CDSS last June has been, as was predicted in that document, supply-constrained, slow growth. The Zimbabwean economy has witnessed a period of continued slow-down in the rate of expansion over the past several months.

This performance is in direct contrast to the very impressive growth rate during the first two years of the country's independence established at 15% in 1980 and estimated at 7% (IMF) and 13% (GOZ Central Statistics Office) in 1981. This slower rate of real growth, informally estimated to be 2% and 3% in 1982 and 1983 respectively can be attributed to: a dip in the large, underutilized capacity which was available during the first two years of independence, foreign exchange shortages limiting capital imports, lack of sufficient confidence in the investment climate to attract significant foreign investment, and skilled labour shortages. The world wide recession has had a very strong adverse effect on the country's mineral and manufacturing exports. The country is also in a second drought year. This downturn in the rate of growth came as no surprise. The FY 1984 CDSS noted that "it will be some time before the economy replicated the economic performance of the past two years" and that "some observers doubt that 1982 will see any real gains in per capita incomes although total GDP should grow by about 4%, as the world recession, coupled with the effect of the recent drought on agricultural output make themselves felt." (FY CDSS p.10). To address this slow down, the Government has taken steps to ease the pressure on those major factors impeding growth. Over the short-term, measures are being implemented to reduce the pressure on the balance of payments. These include devaluation, a currency float, an export incentives scheme, and giving priority to export industries in the allocation of foreign exchange. This year greater emphasis will be placed on reducing the rate of inflation which has remained high (presently estimated by the Reserve Bank of Zimbabwe at 18.4% for higher income earners) even in this period of slow growth. Greater restraint in wage increases is relatively certain. These actions, as well as the Mission's assessment of their effectiveness are discussed in greater detail in section IV on the policy framework.

B. Agriculture

Performance of the key sectors of the economy has been mixed. Overall agriculture production in 1982/83, though not expected to reach the record output levels obtained last year when maize production increased 246% over the previous year and other major crops (wheat, cotton, sorghum) recorded significant increases, is expected to be high. The small decline is expected because of a severe drought, the worst in 83 years. Maize, ground-nut and sorghum production will be affected.

Cotton, soybeans, tobacco and dairy production will be more successful. However water shortages through the dry period will severely affect winter wheat production and will result in significant loss of cattle. Because of increased cattle slaughtering and sales due to the drought, increased output and an expected record sales value for tobacco and expected increases in other commodities (sugar, cotton and possibly soya bean), the effects of the drought on overall agricultural output and sales will be largely offset.

C. Manufacturing

Performance of the manufacuring sector during the first two quarters of 1982* was poor and projections for the remainder of the year are more gloomy. After a total increase of over 40% in 1980 and 1981 manufacturing production is stagnating in 1982, recording negative growth rates of .7% and .2% during the first and second quarters of 1982 respectively as compared to the same periods in 1981. This decline in industrial output is attributable to a reduction in foreign exchange allocations for capital equipment and raw material imports and decreasing demand for clothing, footwear and consumer durables resulting from high inflation.

D. Mining

The mining sector, during the first two quarters of 1982 continued to experience declines mainly due to increasing costs, an overvalued exchange rate, and most seriously, metal prices on the world market. During the second quarter all minerals with the exception of nickel and tin experienced production declines and the overall value of production fell 7.7% during the second quarter of 1982 as compared to the same period in 1981. Cash flow problems are the order of the day for many mining companies and some already have asked the Government for relief to avoid large scale layoffs or closures. The 1982/83 budget has earmarked Z$50 million** to assist troubled private mining firms. In past weeks, some tentative increases in copper, chrome, asbestos and gold prices are encouraging and with the recent devaluation, mining production could pick up if world economic recovery begins.

E. Government Finance

The FY 1984 CDSS predicted that the Government would probably underspend the 1981/82 budget and hence the deficit would be lower than initially estimated. The budget was indeed underspent by Z$150 million. Government budget estimates in the Transitional Development Plan project deficits of Z$375 million in 1982/83, declining to Z$291 million by 1984/5. If local government budgets are included, the overall deficit over the three-year plan increases to 33%. In an effort to reduce deficits, Government is planning a number of measures which include reviewing outlays for social services, further subsidy reductions, forced underspending, etc. These actions are discussed in greater detail in Section IV.

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* refers to calendar quarters

** Z$1=US$1.47 in 1981; US$1.31 in 1982, present value since devaluation approx. $1.04

F. Balance of Payments

The balance of payment deteriorated sharply in 1981 as the current account deficit more than doubled to about 9.6% of GDP. In spite of significant external borrowing there was a large overall negative balance of Z$ 305.6 million. After holding its own during the first quarter of 1982, the foreign exchange situation worsened during the second quarter. Gold and foreign exchange reserves declined sharply by Z$23.7 million to Z$143.5 million at the end of the second quarter. The outlook for the overall balance of payment in the near terms is varied. According to the Transitional National Development Plan (TNDP) 1982-85 trade deficits are expected to average about Z$225 million per year through 1984/85. Given the very optimistic growth rate targets in the TNDP, the deficits will probably be larger. Much will depend on the world mineral outlook and the impact of Zimbabwe's recent devaluation.

G. Strategy Implications

The economic trends over the past several months, most of which were forecast in the FY 1984 CDSS analysis and factored into the strategy re-confirm the appropriateness of the strategy and selected program areas of concentration:

- The Mission's objective in the agriculture sector of enlarging productivity and increasing productive capacity of small farmers is supported by a strong incentive policy environment. Measures have been taken since independence in such areas as producer pricing, subsidy reduction, foreign exchange allocations for the importation of agricultural equipment for commercial farmers. AID's Commodity Import Program and the Agriculture Sector Program have channeled foreign exchange resources to permit the importation of equipment to benefit commercial and communal farm production as well as agriculture industry.. Local currency is being programmed into seven identifiable sector constraint areas to help smaller producers.

- Foreign exchange from the Commodity Import Program is coming at an auspicious time for the manufacturing and mining sectors. If transportation egress through Mozambique can be resolved, the recent devaluation should help these sectors' export. However replacement capital equipment and spare parts are critical requirements if productive capacity is to be maintained.

- Manpower requirements continue to show up as the second major factor limiting growth and affecting both public and private management of the economy. AID's existing training programs (ZIMAN) and the planned Basic Education and Skills Training program are on target. FY 1983 plans to assist with the construction of new training institutions, supporting more cost efficient alternatives to achieving government's education objectives and helping in vocational and skills training will bring more substance to this strategy element.

- Policy dialogue will remain an important component of our strategy despite much progress over the last eight months in policy adjustment. Improvement is needed in donor coordination on policy issues and in encouraging the GOZ to adopt measures that will encourage more foreign private investment.

- Other elements of the Mission's strategy; moderating population growth rates and support for low income housing remains valid.

IV. Relevance of Strategy and Assistance Program to Agency's Four Priority Areas of Concern

A. Policy Framework

In the FY 1984 CDSS, the Mission set forth as one of its strategy objectives: "To engage the Government of Zimbabwe in policy dialogue that will maintain an environment conducive to growth, private investment and export led development". We also noted that our policy dialogue would not seek to employ direct leverage but rather a subtle, patient and educative process. This has taken the form of special studies, sector assessments, and reviews of alternative policies and their implications.

This educative approach has proved successful. As relationships developed and as AID programs showed quick results, we have seen a growth in confidence among GOZ officials in our recommendations. The GOZ believes in the USAID program and is now more open to the review of existing policy implications and new policy options. Consequently over the last year, we have been able to slowly introduce the use of more direct policy approaches with some individuals in Government. Our advice must never be gratuitous nor prescriptive. We can continue success in policy adjustment through studies, personal contacts and open dialogue at every opportunity.

The economic development policy environment here is largely favourable. As was noted in the CDSS and as is still true today, monetary policy has been conservative, fiscal policy has been moderate given the high degree of pent-up demand for education, health, and agriculture services. Agriculture production incentives have been on the mark resulting in record production and remarkable new responsiveness from small farmers.

Therefore, our policy dialogue agenda is structured to encourage the GOZ to continue what we consider in many respects are now sound and rationale policies. The policy agenda in the CDSS set forth three categories of policy adjustment wherein our efforts would be concentrated and progress sought: Macro-economics; Agriculture and Education and Training. Although much has been accomplished in the last year, there is still room for improvement.

1. Macro-Economic Adjustments

Our agenda called for a gradual movement away from import controls assuming an improvement in the foreign exchange situation. Given the increased strain on the balance of payments and the worsening of the foreign exchange situation over the last six months, no measurable progress has been made on the former.

However, the GOZ has taken steps to rationalize the import licensing process and has put in place a system of extending priority to those export sectors e.g. mining and manufacturing that are essential if growth is to resume.

An effective devaluation of "25-30 percent" has been achieved. In a statement to the nation on economic policy adjustments in December 1982 the Minister of Finance Economic Planning and Development (MFEPD) announced a 20% devaluation of the Zimbabwean dollar. In this statement, the Minister also announced that procedures would be put into place to permit periodic adjustments of the Zimbabwean dollar against the basket of currencies so as to keep its value at a more realistic rate.

This "float" has resulted in an even larger devaluation against the South African Rand and the U.S. dollar. The devaluation was also accompanied by a policy of wage restraint. The policy calls for a freeze on increases in the minimum wage until the Government completes an assessment of the wage structure. This is expected in June 1983.

Though not ideal, there has been improvement on subsidies and consumer food pricing. Retail prices for beef were increased twice in 1982. In October the bread subsidy was reduced and the price increased. The cooking oil subsidy was eliminated in April and prices increased in October. Discussions with the IMF in November led to a reduction of the subsidy on maize meal. Movement on subsidy reductions on wheat and milk are under active study and some observers feel that an announcement is imminent. These have been difficult decisions adding to inflation. But they are consistent with Zimbabwe's determination not to subsidize urban food consumption at the expense of rural production.

Reforms in monetary policy have been introduced. In 1981, basic lending rates increased and interest on many consumer loans now exceed the rate of inflation. New short-term foreign borrowing in the first half of 1982 appears to have been curtailed, with the country's short term debt ratio now standing at 16%. Disbursements of long-term capital inflows, which appear to have accelerated, totalled Z$90 million in the first quarter of 1982, almost half again the total amount for 1981.

Government spending also has been effectively limited. The 1981/82 budget was held to a 7.7 percent increase meeting the IMF targets of 11.4 and 8.2 percent of the first credit tranches. Although the budget statement for 1982/83 projects that the deficit will rise to 10.7%, the order to Ministries to submit revised budget proposals reflecting how a 25% spending cut would be achieved, could result in up to Z$250 million in spending reductions and a budget deficit of between 6 and 7 percent by the end of the current year. Government is commited to reduce deficits, to make the devaluation more effective and to dampen demand and inflation.

2. IMF Agreement Seems Imminent

There is considerable overlap between AID's macro-economic policy dialogue agenda and IMF targets. The IMF has urged the GOZ to establish ceilings on domestic and government credit, limit medium and short term foreign borrowing, keep the deficit below a certain percentage of GDP, reduce subsidies and double interest rates to a level exceeding the rate of inflation and to restrain wages. In mid-February, Government representatives and the IMF held a round of negotiations for a compromise eighteen month standby arrangement. Available information suggests that the IMF is very satisfied with GOZ performance against the targets and that an agreement is imminent.

3. Good Performance but Room for Improvement

While the Mission is satisfied with GOZ policy performance in many respects, we have identified three important areas where more work is required and where further adjustment will be sought.

a. Private Sector

Over the next year, our efforts will focus on, via Government, the Chamber of Commerce, the Confederation of Zimbabwe Industries and other private sector representatives and entities, getting more foreign exchange channelled to emerging businesses and to support the more competitive manufacturing and industrial enterprises following on a World Bank industrial survey. As opportunities permit, we will informally urge the GOZ to examine those price controls that discourage production or investment. We will also be discussing with the GOZ opportunities for using local currency generations for small enterprise lending. The scope for U.S. dialogue is considerable. Our relations with the Ministers and Secretaries of Finance Economic Development and Planning Trade and Commerce and the Reserve Bank, are excellent and the policy dialogue will be pursued informally at this level. However the Commodity Inport Program (C.I.P.), the Agriculture Sector Program (ZASA) and the planned Basic Education and Skills Training Assistance Program (BEST), will be the major vehicles, through foreign exchange allocations, to influence policy in these areas.

b. Size of Budget Deficit

Between independence and 1982, the budget deficit fell from a high of 13% to 7% of GDP. The latest budget, presented in July of 1982, is balanced on the recurrent side but projects a significant increase in the deficit on the capital side. Though indications now are that the budget may be substantially underspent we believe that there is room for improving management and planning of expenditures if debt is to be controlled and investment and savings generated. The large sums of local currency from CIP generations have helped reduce the deficit providing the major basis for our dialogue on the budget. The mission is working with the Ministry of Education, the largest budget recipient, to identify ways to reduce educational costs.

c. Increased Participation and Benefit to Smallholders

In this area, our efforts will focus on encouraging Government to adopt policies which will create new production and marketing opportunities for cash cropping among smallholders while maintaining high productivity of the commercial farming sector. ZASA will be the major vehicle for conducting this dialogue. AID will participate through this program on an inter-ministerial working group that will make recommendations for program and policies in areas such as consumer food subsidy reductions, land policy, agricultural credit interest rates, and reduction of input costs.

B. POLICY ADJUSTMENTS IN AGRICULTURE

1. Removal and Reduction of Subsidies

Although there remains room for continued improvement, a number of very positive policy steps in the agricultural sector have been taken by the GOZ during the past year. Perhaps the most significant adjustment, certainly in financial terms, is in the area of consumer food subsidies. During the year, all subsidies were removed from vegetable oil and super refined maize meal while the subsidy on other grades of maize meal was reduced by about one third representing a 50 percent price increase to the consumer. The GOZ has also reaffirmed its intention to phase out all consumer subsidies. Nevertheless, the remaining subsidies constitute a financial drain on Government resources and subsidy removal will continue to be an area of focus.

2. Interest Rates and Oil Seeds Pricing

During the year, the GOZ also agreed to gradually raise interest rates for loans to small farmers with the current rate of 9 percent being scheduled to increase to commercial rates within the next two years. On the question of price stimuli, the Government has made sunflower, a controlled crop with an incentive price. This along with producer price increases for cotton and soya beans, should close the edible oil deficit. In the last year, oil production has not kept up with demand.

3. Land Resettlement

The Government has not changed its official land resettlement policy but implementation has proceeded at a very deliberate and slower pace than originally projected. There also appears to be a growing awareness of the possible implications of any massive resettlement program on the production of export crops such as tobacco. Government also realizes implications of the present population growth rate of close to 4% and the slow growth of modern sector employment. Even if land resettlement proceeded at the very optimistic rate of 162,000 families originally planned, in eight to nine years, the land/labor ratio will return to present levels.

The GOZ has recognised that flexibility is necessary in implementation and has approved certain new resettlement models for the lower rainfall areas. It might also be noted that consideration is being given to the use of the AID-supported FARMAP (farm data collection) program in resettlement schemes to provide monitoring and evaluation information for use in planning/ replanning. In working with the GOZ on this program the Mission will take every opportunity to convince the GOZ to pursue rational well thought-out resettlement and land tenure policies in this important and sensitive area.

4. Progress Still Needed in Agriculture Policy

There has been no progress on reducing the costs of essential inputs although the establishment of an African Fertilizer Center in Zimbabwe offers hopes for the future. Similarly there has been little government action on supporting savings clubs although they are being encouraged to register as cooperatives. Group lending is being tested but as yet not through the savings clubs.

A modest farming systems research activity has been started and greater attention is being given to research of direct relevance to communal farmers. Unfortunately, budget constraints have resulted in no significant government funding increases. This should be partially rectified by the start of implementation of ZASA.

Over the next year, as implementation of the agriculture sector assistance program accelerates, the Mission will be concentrating its efforts in the three areas mentioned above and will continue to encourage the GOZ to adjust policies in the agriculture sector that promote the well being and productive participation of communal farmers while at the same time maintaining and providing necessary incentives for commercial farmers.

C. Education and Training Policies

Considerable progress has been made in education and training policies in the months since the CDSS was submitted. USAID continues to be seen as one of the most responsive donors in the education/manpower sector which has given us good access for dialogue on policy questions.

1. Education Costs and Alternatives

As the CDSS indicated, the key to containing the rate of growth in the budget of the Ministry of Education and Culture is to find ways (a) to allocate resources more effectively and efficiently and (b) to deliver educational services at a lower unit cost. During the last year, USAID funded, through a contract with the Academy for Educational Development, the development of an education budget planning model. This simulation model is being used to project enrollments, demand for teachers and other staff, and budget requirements under varying sets of assumptions. For example, MOEC has explored the impact on costs of retaining the current student/teacher ratios but reducing the associated variance. This indicated the effect on resource requirements that a better use of available resources would have without any underlying structural change in the system.

The model is being further refined to allow the analysis of the system to be carried out at the national, provincial, district, and even the school level. It is playing an important role in the Ministry's current planning of the activities to be implemented for the TNDP. It is also being used to measure the impact of various cuts on the demand for inputs such as teachers and outputs such as enrollments and school completion rates. The Ministry has also made a number of important changes in its overall organization which will enhance the likelihood of successful implementation of the eudcation sector program to begin later this fiscal year. For example, curriculum development has been consolidated into a single unit within the ministry. This new unit is actively exploring different approaches such as radio in direct classroom instruction as a means of reducing the number of teacher contact hours which will reduce the unit cost of education by permitting the existing teaching force to instruct a larger number of students.

Over 90 percent of all primary and secondary schools in Zimbabwe are private. These schools are administered by mission societies and local government authorities such as rural and district councils. Prior to independence, local government had the power to raise revenue through direct taxation. This authority was withdrawn at independence because of its negative association with the previous government. However, the GOZ is exploring a number of ways to reintroduce local financing of education without resorting to taxation. The Government has indicated that it will not assume responsibility for private school construction. Council schools have been encouraged to form parent committees which are responsible for raising funds and overseeing the construction of classrooms. Mission societies have been asked to look toward their constituents for increased contributions to finance their schools. Urban communities which have historically had fully subsidized schools have been given authority to establish management committees which set school fees. These fees are to be used to supplement the financial resources provided by the Government. A cabinet level committee has also been set up to examine the pros and cons associated with a general reintroduction of school fees.

2. Training; Government and the Private Sector

The Ministry of Manpower Planning and Development has taken a number of steps during the last year to promote the development of skilled manpower in Zimbabwe. First, in June 1982 the Ministry bonded all apprentices deciding to leave their training programs, its major impact seems to have been creating stability in the technical manpower field. Second, in January 1983, a new Vocational, Education and Training Levy came into effect. All employers whose total annual wage bill exceeds Z$2,000 will be taxed one percent of their monthly payroll. The estimated Z$10 million to be collected through this levy will be used by Government to assist private companies to enhance and expand their training programs. The levy builds and strengthens the historically close ties between the private and public sectors in the provision of skills training in Zimbabwe.

The Basic Education and Skill Training Sector Assistance Program will provide resources to assist the Ministry of Manpower to expand technical skills training programs particularly for lower and mid-level skilled manpower, thereby filling the current skills void between unskilled and highly skilled workers. The Ministry has indicated that it sees some of these resources being used to reinforce the tie between the private and public sectors in technical education.

D. Facilitating the Private Sector

1. Mission Strategy

USAID's private sector strategy has been described as an employment strategy, basically to assist the Government in expanding the economy's employment absorptive capacity. The FY 1984 CDSS cited the growing disparity between the number of new labor force entrants annually and the lack of employment opportunities. This situation is exacerbated by the steady decline in employment opportunities in traditional wage occupations and the inability of the industrial and commercial sectors of the economy to absorb the rapidly growing labor force. The Mission's strategy to deal with this problem is threefold; to channel much needed foreign exchange into the modern sector, to promote small enterprise development and to expand human capital and the pool of employable, trained people.

2. Foreign Exchange to the Private Sector

The Commodity Import Program, started in 1982, is the Mission's primary means of assisting the private sector, with replacement and new equipment, spare parts and raw materials. The 1982 program of $50 million will be augmented in 1983 with another program of $37 million. USAID/Zimbabwe has successfully convinced the GOZ of the importance of allocating the majority (80%) of the foreign exchange made available through this program to private sector importers. The CDSS established the very strong relationship between foreign exchange for capital imports, new investment and employment.

3. Small-Scale Enterprise Development

Local currency generated by the CIP will support a limited number of acitivities in small-scale enterprise promotion and development.

The Mission's most significant program to assist in the promotion of small scale enterprises will be through the Small Enterprise Development Corporation (SEDCO). The Ministry of Trade and Commerce has asked if USAID could assist in the establishment of SEDCO, once its legislation is submitted to Parliament. While it is premature to give details regarding how USAID might be involved, the Ministry of Trade and Commerce has indicated in discussions with the Mission that it would appreciate technical assistance as well as financial resources. This project will be treated as a PRE set-aside and will be closely studied after the legislation is completed.

CIP local currencies have also been used to establish a National Community Development Trust Fund which is designed to encourage small local communities and cooperative groupings to engage in productive, self-sustaining activities. The Fund will be administered by the Ministry of Community Development and Women's Affairs. Over the next few months, the Mission will also be working with that Ministry in developing an AID financed project aimed at providing institutional support through the U.S. PVO community, particularly in administration, planning and management. Over the past year, the Mission has dicussed with the Ministry of Finance Economic Planning and Development the need for the GOZ to establish a clearer policy regarding the role of both Zimbabwe and non-Zimbabwe based private voluntary organizations.

4. Skills Training and Institutional Support

After foreign exchange, skilled manpower is cited by the private sector as the key factor limiting production and new investments. To help ease the skilled manpower constraints, USAID, through the Zimbabwe Manpower Development Project (613-0215), is training electrical, mechanical, and automative engineers many of whom will return to teach in the technical colleges in Zimbabwe. Some will go directly into industry.

In addition, the proposed Education Sector Program will provide resources to the Ministry of Manpower to expand capacity in both private and public technical schools to meet the need for skilled manpower at various levels. This program will emphasize the need to develop institutional training capacity to fill the gap between the advanced technical training available in the Polytechnics and the greater requirement for lower level and mid-level technical manpower.

ZASA focuses on improving the productive capacity of the small farms in the peasant sub-sector. The potential for expansion of production in this sub-sector has been demonstrated by the rapid growth in output from the communal areas in the last two years. This expansion in small farm productivity has already increased rural incomes and as a consequence the demand for goods and services creating new opportunities for off-farm employment and rural small enterprises.

E. Technology Transfer and Research

1. The Constraints

Although perhaps better able to develop and extend technology than many countries, Zimbabwe faces a number of constraints to acquiring new technology and instituting effective research programs. These can be divided into manpower, foreign exchange and budget availability. All are linked to some degree , but each affects technology aquisition and are addressed in our strategy differently.

Manpower is a problem in two ways. First, although Zimbabwe possesses considerable numbers of well qualified and trained individuals, the types of production and social development problems now encountered are often outside the experience and capabilities of the personnel. Second, the numbers of people to carry out actual technology and research related work are insufficient for the task. This shortage of skilled labor is as previously noted, one of the key factors constraining growth of the Zimbabwe economy.

Foreign exchange shortages, also a major factor inhibiting growth, limit technology acquisition. The period of sanctions (1965-1980) meant severe limitations on the importation of new equipment. Much of Zimbabwe's modern sector technology is dated or in need of spare part replacement.

GOZ austerity measures restricting the growth of operating budgets of most Ministries prevent both the inauguration or expansion of programs to develop new technology and the transfer of technology developed to the users or potential beneficiaries. This is particularly a problem in agriculture and industry. During the period of sanctions, Government tended to emphasize development of sophisticated or high cost technology often not suited or immediately transferable to the majority of the population.

2. Mission Programs to Address Constraints

To meet the manpower dimension of the technology transfer problem the ZIMMAN Project will provide degree training in key scientific and technical areas to over 150 Zimbabweans. Specific components of the two sector programs in agriculture and education will fund technical expertise in critical technology areas as well as provide additional support for manpower expansion and enhancement activities in Zimbabwe. The objective of these efforts is to both expand the pool of manpower able to develop and extend new technology and to increase the capabilities and effectiveness of existing staff. Institutional training capacity will be permanently reinforced.

The foreign exchange limitation to new technology transfer and research is being partially met through a series of Commodity Import Programs and Commodity Import elements in the agriculture and education sector programs. New foreign exchange enables the importation of equipment, more modern plant, and critical spare parts useful in developing new technology. For example, under the initial CIP, computer and data processing equipment, new manufacturing equipment and advanced cotton presses are a few of the advanced technology items already imported or on the way. Under the sector programs comparable items as well as scientific equipment for research programs will be imported. Since the primary benificiary of the Commodity Import activities is the private sector, this also serves to encourage and stimulate new localised technology development in that very important part of the economy. For instance, solar panels may soon be imported under the CIP, leading to local manufacture of pumps for solar powered irrigation. Similarly key components of pivot irrigation technology are being considered for import under the CIP which will permit local private manufacture of the complete pivot irrigation system.

A few examples of the technology we expect to see extended under the AID program are: (a) the micro-computer based education budget planning simulation model mentioned earlier; (b) testing of new crops such as buffalo gourd and jojoba for suitability as small farmer crops in lower rainfall areas; (c) use of radio as an inexpensive method of providing classroom instruction and agricultural extension advice to overcome shortages of teachers and extension agents; (d) micro-computer utilization in the University of Zimbabwe Faculty of Agriculture teaching programs; and (e) up-to-date radiology and pathology techniques in disease diagnosis and treatment.

F. Institutional Development

1. Disparities between Traditional and Modern Institutions

At independence, there existed in the modern economy an institutional structure that was very effective in meeting the needs of the modern sector. Both public and private institutions in the modern sector were well developed, well organized, well staffed and adequately equipped. This was not the case for the largely rural traditional sector. Formal organizations aimed at reaching this majority segment of the population were much less extensive and although widely supplemented by private institutions, could not effectively reach and service the majority of the population located in the traditional sector, to stimulate their productive potential.

More specifically this unbalanced system was reflected in an extensive public and private sector network of institutions providing commercial, large-scale agriculture with excellent service, but not the majority of small rural farmers. Research results, extension information, credit, marketing outlets, trained manpower and needed off-farm inputs were available to the select few from the institutional system. A significant policy shift in the last two years has been to redirect institutional support to the rural and informal sectors without affecting the strong support necessary for commercial farming, mining and manufacturing.

2. Agriculture

Small scale and communal farmers were serviced at a much lower level prior to independence often only coincidentally as they were able to take advantage of the institutional network geared to the commercial farmer. Similarly, policies while not discriminatory dejure were defacto discriminatory in that they failed to recognize the special needs of the smallholders.

Since independence the Government has been seeking to redress this imbalance. Our agricultural programs seek to support this shift. In general our efforts aim at expanding the capacity of the institutional network to reach the traditional sector small farmers while maintaining the effective system serving the existing commercial sector. The objective is to enable an increasing percentage of the rural population to come into the modern economy, to grow cash and export crops while meeting food needs.

On the public side, expanding capacity means developing some new institutions, adding to the infrastructure and changing the focus of many existing entities. ZASA provides a mechanism where institution building requirements can be supported both with foreign exchange and local currency. We expect our institutional development inputs to include physical infrastructure development, technical assistance, new equipment and manpower training either directly or through expansions in local training institutions. Specifically we anticipate resources being directed toward the expansion of:

- the agricultural training colleges and institutes provides extension manpower;
- the University of Zimbabwe Faculty of Agriculture, where a doubling of output and enlargement of course offerings is planned over three years;
- research facilities and programs directed at small farmer needs;
- innovative extension programs seeking to make more effective use of the limited extension skills in reaching small farmers;
- the ability of the cooperative movement to support a large number of new cooperatives;
- credit programs aimed at small farmers; and
- planning capacity for small farmer programs.

3. Private Sector Institutions

In the past, commercial banking has not provided lending and appropriate advisory services for new small entrepreneurs. This was particularly true in rural areas. AID will support SEDCO as noted earlier, the entry of private building societies into low cost housing and improvement in foreign exchange management for private sector requirements. Overall, our strategy will try to maintain an institutional environment conducive to new private initiative.

4. Education and Training

The historical dualistic pattern of institutional development in formal education and training, mirrors that of the agricultural sector. At the time of independence, Zimbabwe had a well-developed and financed system of high quality education for the white community contrasted with a less well-developed and inadequately financed system serving the black majority. The schools serving the white community were financed and operated by the Government. On the other hand, the schools catering to the black community were by-and-large run by mission societies and local communities. Similarly, advanced skills training, particularly in the technical fields, exclusively served the needs of the white minority.

Since this dualistic system based on race resulted in marked contrast between private and public institutions, with public institutions being synonymous with better quality education, one might have expected the new Government of Zimbabwe to have moved quickly after independence to expand Government schools and training institutions. Instead the government has moved deliberately to build on the advantages of the system it inherited while removing the inequities that had characterized it. For example, the Government has emphasized the need for communities to be actively involved in the provision of primary education. Thus, urban and rural communities are being encouraged to tap their own resources to build schools and provide additional services which the Government cannot afford. On the other hand, the Government has rapidly expanded its program of teacher training to cater to the increased demand for trained primary and secondary school teachers.

There are two major ways in which USAID's assistance is helping to develop institutional capacity in the formal education and skills training sector. First, the Basic Education and Skills Training Sector Program will provide the additional resources needed to develop and implement a more efficient and effective system of education and training in Zimbabwe. Second, the Zimbabwe Manpower Development Project along with two sector programs will provide degree training for nearly 300 Zimbabweans many of whom will return to become instructors in agricultural, technical and health training institutions.

V. ROLE OF FOOD AID

Although divergent views toward food aid exist in the Government of Zimbabwe, the prevailing attitude is one of avoidance. This position stems from a historic and continuing ability of Zimbabwe to produce an overall surplus of food with consumption exceeding production for only a very few commodities. This attitude is re-inforced by a belief that food aid, as it has often been provided to other African countries with perhaps a better resources base than Zimbabwe, has fostered a dependency mentality and allowed Governments to postpone or avoid often tough agriculture sector decisions. GOZ actions to maintain a food surplus position include periodic price adjustments to provide producer incentives, forward planning so production inputs are available where and when needed, efficient operation of an expanding market network, provision of support services for the agricultural sector and changes in consumer food prices to reflect market realities.

In this situation food aid programs, in a general sense, do not fit into the USAID/Zimbabwe strategy. However, we have a keen, on-going interest in (a) triangular arrangements whereby Zimbabwean surplus maize in particular is shipped to other African countries in exchange for commodities that Zimbabwe does import such as wheat thereby promoting intra-regional trade while reducing Zimbabwe storage costs and saving foreign exchange; and (b) sales agreements covering Zimbabwean maize financed by multilateral and bilateral donors.

The Mission feels that only in an exceptional situation, such as a country-wide famine or to alleviate a short-term deficit in a particular commodity before the agricultural industry can respond to the need, would a regular Title I or a Title II program be appropriate for Zimbabwe or for that matter, interest GOZ officials.

VI. APPROPRIATENESS OF NON-PROJECT ASSISTANCE

A. Rationale and Focus

The focus of USAID's assistance to the agricultural and human resources sectors is on policy reforms, institutional change, and allocation of new resources to sectoral constraint areas which inhibit the growth of agricultural output and human resources. The Mission believes that the non-project assistance approach as opposed to project assistance is preferable for the following reasons:

1. Carrying out policy dialogue is made easier by the magnitude of the resources being made available ($45 million in each case) and the greater flexibility such a mode of assistance affords the Government of Zimbabwe.

2. A sector approach permits combining overall foreign exchange and balance of payment relief with the provision of resources to meet budgetary shortfalls in both sectors.

3. Zimbabwe has a relatively well-developed human and physical infra-structure and is thus capable of implementing program assistance. In both sectors, a reasonable planning and implementation framework is in place into which AID resources can flow in order to achieve the policy objectives.

4. Non-project assistance is also in keeping with the Mission's overall management approach which stresses handling a large AID program with a small staff.

B. Monitoring

Monitoring of both sector programs will be conducted in several ways. Fiscal monitoring is carried out through the review of quarterly disbursement reports from the Ministry of Finance, Economic Planning and Development and the implementing ministries. AID will use Trust funds for occassional study audits using resident US accounting firms. Ad hoc field visits will be carried out to ensure that the resources are being allocated to the critical constraint areas and are being effectively utilized in addressing these constraints. In addition, there will be periodic meetings involving the Ministry of Finance, Economic Planning and Development, the various implementing ministries, and USAID representatives to review performance of the programs.

C. How will Success be Measured?

1. Agriculture Sector Assistance

The overall indication of Agricultural Sector Program success will be the implementation of GOZ policies and programs which improve the economic status of the small-holder. More specifically we will evaluate evidence of reasonable progress in the following areas recognizing that movement and progress may vary in different annual circumstances:

- allocation of greater share of total GOZ resources to beneficially affect low-income smallholders;
- reduction and eventual elimination of consumer subsidies resulting from fixed producer and consumer prices;
- land resettlement policy which recognizes land availability, competing smallholder assistance requirements and production/export goals;
- application of commercial rates of interest in lending to smallholders;
- an increase in research on crops and integrated crop/livestock systems directed specifically to communal farm conditions;
- extension of price stimuli, now applied to major commercial crops ~~to~~ some present and new small farm crops;
- employment of market news and other innovative measures to extend technical information on production and marketing to smallholders, thus serving a large number of farmers with the number of available extension workers;
- adequate Government support of rural savings clubs as a mechanism for mobilizing rural savings for smallholder credit and for channeling loan funds at lower costs through groups to small-scale farmers;
- development and adoption of measures to increase cooperation and linkages between research, extension and university education; and
- reduction of the costs of essential inputs by substituting lower cost items and more efficient methods of use, thereby easing the elimination of subsidies.

2. Basic Education and Skills Training

Over the five-year disbursement period of this sector grant, certain trends will become evident which will point to the progress in the areas of reform and expansion planned by the GOZ. The following kinds of positive developments will be monitored and evaluated:

- reduction of the disparities in finance, trained teachers and instructional materials between schools and between geographic areas, with particular attention to the rural and private schools which provide education/training for the majority of students;

- substantial increases in the numbers and percentages of children successfully completing primary school and continuing to secondary;

- substantial improvement in the quality, relevance and instructional effectiveness of curricula, both in the schools and in the technical training programs;

- increased availability of technical training opportunities in a wide range of skill areas, leading to productive employment and to a reduction of skilled manpower shortages which constrain investment and economic expansion;

- strengthened administrative and management capacities at various levels of the education and training systems, leading to efficient use of resources and the moderation of recurrent finance burdens. Greater local community management and financial input into education;

- improvement in ~~the~~ numbers of fully trained teachers within the system;
  elaborate this?

- an improvement in current student teacher ratios without sacrifice in quality of education. The introduction of innovations which reduce teacher classroom time.

VII. RESOURCES

A. Management

The Mission is effectively implementing its strategy of managing the Zimbabwe program "with small staff, larger units of management, fewer projects and a different style..." (p.89 FY 1984 CDSS). The approach, relies on the use of non-project assistance, limits functions performed by the USAID staff, utilizes REDSO and US TDY experts; emphasizes the use of local expertise; and relies on a Joint Administrative Office (JAO) for most support functions. In implementing this strategy, the Mission's greatest difficulty has been the lack of adequate support services from the JAO. Presently staffed by one direct-hire Administrative Officer and a General Services Officer, the JAO is critically under-staffed and therefore unable to provide adequate and timely support services for the four Agencies that it serves. Although a second GSO (AID funded) will be added to the JAO this year, the Mission does not expect to see any improvement in services, since at least four more official Americans will be posted to Zimbabwe this year.

This problem is not unique to AID and the Mission will be meeting with the other member Agencies to identify ways of addressing the issue (e.g. a maintenance and repair contract with a local firm). Since this type problem invariably affects morale, it is a major Mission concern and will receive high priority attention until a solution is found.

Last December, a Deputy Mission Director joined the USAID Zimbabwe staff bringing the total direct-hire staff to eight as follows:

1. Mission Director
2. Deputy Mission Director
3. Controller
4. Human Resources Development Officer
5. Agricultural/Rural Development Officer
6. Supply Management Officer
7. Administrative Secretary
8. Regional Development Officer

As noted in the FY 1984 CDSS all Mission officers handle a range of activities. This also applies to the Deputy Mission Director who serves as the Mission Program Officer and manages the Housing Investment Program and the Child Spacing project. This small US direct-hire staff is supported by a local staff that will expand from the present level of eleven (four FSNE's, seven PSC's) to fifteen (four FSNE's, eleven PSC's). It is hoped that the addition of four PSC's will fully meet Mission local staffing requirements for the foreseeable future.

B. REGIONAL PROGRAM STAFFING REQUIREMENTS

Over the past few months there has been considerable project development activity with respect to the Southern Africa Regional Program. Several activities are presently under design and as the number of projects grow and implementation intensifies, it may become necessary to increase the Southern Africa regional staff. At present, only one Regional Development Officer is handling the program. If a decision is made to reduce US staff in Nairobi and to re-assign USDH AID people in Zimbabwe, in lieu of RHUDO, we require a project officer to assist with project design and implementation and an economist to assist in project conceptualization and analyses for the regional office. This level of direct hire staffing, i.e. three, will assure adequate planning, monitoring and analysis capability.

C. FUNDING LEVELS

The proposed assistance planning levels as contained in the FY 1984 CDSS (see p.91) and the related assumptions still pertain. The Mission believes that the economic difficulties being experienced by the GOZ, coupled with the positive economic policy of the Government dictate a continuation of high levels of concessional assistance to Zimbabwe. We continue to think that the phase down of the program after FY 1984 should be gradual and that other less concessional assistance instruments should be joined with the private sector CIP to maintain an overall level that is politically acceptable and supportive of US foreign policy interests.

The Mission does not propose any staff reduction before FY 1987 since personnel will be required to manage the CIP, HIG resources, possible PRE inputs, the Agriculture and Education sector assistance programs.

D. PROJECT MANAGEMENT CONCERN

The recent arrival of the Deputy Director has given the Mission considerable relief as he has assumed program office functions as well as project management responsibilities for the HIG and Child Spacing projects. Much has been said in AID/W of late regarding the need for a Population Officer in Zimbabwe. It is true that implementation of the Child Spacing project has proceeded slowly. This is due to a management vacuum within the Child Spacing Association. We believe this will be resolved with the administration and management changes planned for the Association and completion of the management study due to begin in March or April. Whatever implementation problems we have encountered, they have been handled by the Human Resources Officer, the Deputy Director and the timely TDY's of REDSO's Population Officer. The presence of a full time DH Population Officer would have made no difference under the particular circumstances here. Therefore it is the Mission's conclusion that such a position cannot be justified and the Embassy would not concur in additional USDH positions here unless they are part of an overall agreement to reduce staff levels in Nairobi. We will review our position on this issue after the new management of the CSFA is in place and there has been some progress in implementing the recommendations of the management assessment.

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